# AUDITED CONSOLIDATED FINANCIAL STATEMENTS AND OTHER FINANCIAL INFORMATION

Hospital of Saint Raphael and Subsidiaries
Years Ended September 30, 2009 and 2008

Hospital of Saint Raphael and Subsidiaries

Audited Consolidated Financial Statements
and Other Financial Information

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## Contents

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# Report of Independent Auditors

The Board of Trustees
Hospital of Saint Raphael

We have audited the accompanying consolidated balance sheets of Hospital of Saint Raphael and Subsidiaries (the Hospital) as of September 30, 2009 and 2008, and the related consolidated statements of operations, changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the Hospital's management. Our responsibility is to express an opinion on these financial statements based on our audits. We did not audit the financial statements of Caritas Insurance Company, Ltd., a wholly owned subsidiary, which statements reflect total assets constituting 5.2% and 6.9% as of September 30, 2009 and 2008, respectively, of the related consolidated total. Those statements were audited by other auditors whose report has been furnished to us, and our opinion insofar as it relates to amounts included for Caritas Insurance Company, Ltd., is based solely on the report of the other auditors.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Hospital's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Hospital's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits and the report of other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hospital of Saint Raphael and Subsidiaries at September 30, 2009 and 2008, and the consolidated results of their operations and their cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

As discussed in Note 9 to the consolidated financial statements, the Hospital adopted the measurement date provisions of FASB ASC 715, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, effective September 30, 2009.

The accompanying consolidated financial statements have been prepared assuming that the Hospital will continue as a going concern. As more fully described in Note 1, the Hospital has incurred significant recurring operating losses and has not complied with certain financial covenants in accordance with its debt agreements. These conditions raise substantial doubt about the Hospital's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 1. The accompanying consolidated financial statements do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from the outcome of this uncertainty.

Ernst + Young LLP

February 17, 2010

Hospital of Saint Raphael and Subsidiaries

# Consolidated Balance Sheets

*(In thousands)*

| | September 30 2009 | September 30 2008 |
|---|---|---|
| **Assets** | | |
| Current assets: | | |
| Cash and cash equivalents | **$ 21,037** | $ 11,377 |
| Short-term investments | **–** | 3,935 |
| Receivables: | | |
| Patient care, net of allowance for doubtful accounts of $24,690 in 2009 and $25,900 in 2008 | **53,666** | 50,102 |
| Due from third-party payers | **3,545** | 5,228 |
| Other receivables | **2,113** | 2,083 |
| Total receivables | **59,324** | 57,413 |
| Due from affiliates | **8,130** | 7,847 |
| Current portion of assets limited as to use | **1,903** | 1,339 |
| Inventories | **7,867** | 7,965 |
| Other current assets | **371** | 310 |
| Total current assets | **98,632** | 90,186 |
| Long-term investments | **1,499** | 6,006 |
| Assets limited as to use: | | |
| Net funds held in escrow pursuant to tax-exempt bond agreements | **8,179** | 8,777 |
| Funds held in trust for estimated workers' compensation liabilities | **7,328** | 8,678 |
| Other investments | **79,712** | 92,229 |
| Less current portion | **(1,903)** | (1,339) |
| Total assets limited as to use, net of current portion | **93,316** | 108,345 |
| Property and equipment, net | **100,117** | 106,007 |
| Other long-term assets | **2,871** | 6,249 |
| Total assets | **$ 296,435** | $ 316,793 |

| | September 30 | |
|---|---|---|
| | **2009** | **2008** |
| **Liabilities and net assets** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | **$ 57,138** | $ 53,602 |
| Interest payable | **457** | 636 |
| Due to third-party payers | **1,494** | 1,708 |
| Due to affiliates | **69** | 70 |
| Current portion of postretirement benefit obligations | **11,000** | 10,800 |
| Current portion of long-term debt | **4,787** | 4,617 |
| Long-term debt classified as payable in one year (*Notes 1 and 6*) | **69,578** | 73,185 |
| Total current liabilities | **144,523** | 144,618 |
| Estimated workers' compensation liabilities | **7,839** | 8,856 |
| Postretirement benefit obligations, net of current portion | **122,776** | 69,919 |
| Long-term debt, net of current portion and amounts classified as payable in one year (*Notes 1 and 6*) | **3,187** | 4,384 |
| Other long-term liabilities | **42,257** | 47,864 |
| Total liabilities | **320,582** | 275,641 |
| Net assets: | | |
| Unrestricted | **(52,531)** | 9,528 |
| Temporarily restricted | **15,697** | 18,909 |
| Permanently restricted | **12,687** | 12,715 |
| Total net assets | **(24,147)** | 41,152 |
| Total liabilities and net assets | **$ 296,435** | $ 316,793 |

*See accompanying notes.*

## Hospital of Saint Raphael and Subsidiaries

## Consolidated Statements of Operations

*(In thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Unrestricted revenues and other support: | | |
| Net patient service revenue | **$ 458,581** | $ 422,760 |
| Other revenues: | | |
| Realized captives' investment losses for capital preservation (*Notes 1 and 9)* | **(5,979)** | – |
| Realized trust fund investment losses for capital preservation (*Notes 1 and 9)* | **(1,743)** | – |
| Other, net *(Note 1)* | **20,447** | 23,815 |
| Other revenues, net | **12,725** | 23,815 |
| Net assets released from restrictions, used in operations | **3,913** | 3,411 |
| Total unrestricted revenues and other support | **475,219** | 449,986 |
| | | |
| Expenses: | | |
| Compensation, related fringe benefits, and fees | **321,739** | 301,007 |
| Supplies and other non-salary costs | **125,678** | 126,885 |
| Depreciation and amortization | **17,181** | 18,677 |
| Interest | **4,096** | 3,994 |
| Provision for uncollectible accounts | **20,633** | 21,669 |
| Total operating expenses | **489,327** | 472,232 |
| Operating loss | **(14,108)** | (22,246) |
| | | |
| Nonoperating (loss) income: | | |
| Realized investment losses for capital preservation *(Note 1 and 4)* | **(1,208)** | – |
| Other *(Note 1)* | **455** | 1,699 |
| Nonoperating (loss) income, net | **(753)** | 1,699 |
| Net loss before change in unrealized appreciation (depreciation) of investments and realized and unrealized loss on interest rate swap agreement | **(14,861)** | (20,547) |
| | | |
| Change in unrealized appreciation (depreciation) of investments | **4,219** | (8,136) |
| Realized and unrealized loss on interest rate swap agreement | **(1,012)** | (967) |
| Net loss | **$ (11,654)** | $ (29,650) |

*See accompanying notes.*

# Hospital of Saint Raphael and Subsidiaries

## Consolidated Statements of Changes in Net Assets

Years Ended September 30, 2009 and 2008

*(In thousands)*

| | Total | Unrestricted | Temporarily Restricted Specific Purpose | Permanently Restricted Endowment |
|---|---|---|---|---|
| Balances, September 30, 2007 | $ 81,173 | $ 50,221 | $ 18,008 | $ 12,944 |
| Net loss | (29,650) | (29,650) | – | – |
| Net assets released from restrictions for capital purposes | – | 1,448 | (1,448) | – |
| Transfers from affiliates, net | 2,185 | 1,832 | 353 | – |
| Change in net unrealized (depreciation) of investments | (607) | – | – | (607) |
| Restricted gifts, grants, and bequests | 3,611 | – | 3,611 | – |
| Restricted investment income | 321 | – | 208 | 113 |
| Net assets released from restrictions, used in operations | (3,411) | – | (3,411) | – |
| Change in postretirement benefit plans' liability to be recognized in future periods | (14,042) | (14,042) | – | – |
| Change in the interest in net assets of Saint Raphael Foundation, Inc. | 1,853 | – | 1,588 | 265 |
| Change in fair value of interest rate swap agreement | (281) | (281) | – | – |
| Change in net assets | (40,021) | (40,693) | 901 | (229) |
| Balances, September 30, 2008 | 41,152 | 9,528 | 18,909 | 12,715 |
| Net loss | **(11,654)** | **(11,654)** | **–** | **–** |
| Net assets released from restrictions for capital purposes | **–** | **3,313** | **(3,313)** | **–** |
| Transfers (to) from affiliates, net | **(163)** | **(1,872)** | **1,709** | **–** |
| Change in net unrealized (depreciation) of investments | **(74)** | **–** | **–** | **(74)** |
| Restricted gifts, grants, and bequests | **3,597** | **–** | **3,597** | **–** |
| Restricted investment income | **82** | **–** | **59** | **23** |
| Net assets released from restrictions, used in operations | **(3,913)** | **–** | **(3,913)** | **–** |
| Effect of change in accounting for post retirement benefit plans *(Note 9)* | **(2,158)** | **(2,158)** | **–** | **–** |
| Change in postretirement benefit plans' liability to be recognized in future periods | **(49,688)** | **(49,688)** | **–** | **–** |
| Change in the interest in net assets of Saint Raphael Foundation, Inc. | **(1,328)** | **–** | **(1,351)** | **23** |
| Change in net assets | **(65,299)** | **(62,059)** | **(3,212)** | **(28)** |
| Balances, September 30, 2009 | **$ (24,147)** | **$ (52,531)** | **$ 15,697** | **$ 12,687** |

*See accompanying notes.*

# Hospital of Saint Raphael and Subsidiaries

## Consolidated Statements of Cash Flows

*(In thousands)*

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| **Cash flows from operating activities** | | |
| Change in net assets | **$ (65,299)** | $ (40,021) |
| Adjustments to reconcile change in net assets to net cash used in operating activities: | | |
| Noncash items: | | |
| Depreciation and amortization | **17,181** | 18,677 |
| Transfers to/from affiliates, net | **163** | (2,185) |
| Change in net unrealized (appreciation) depreciation of investments | **(4,145)** | 8,743 |
| Restricted gifts, grants, and bequests | **(3,597)** | (3,611) |
| Restricted investment income | **(82)** | (321) |
| Effect of change in accounting for postretirement benefit plans | **2,158** | – |
| Change in postretirement benefit plans' liability to be recognized in future periods | **49,688** | 14,042 |
| Change in the interest in net assets of Saint Raphael Foundation, Inc. | **1,328** | (1,853) |
| Realized and unrealized loss on interest rate swap agreement | **1,012** | 1,248 |
| Nonoperating loss (income), net | **753** | (1,699) |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in: | | |
| Patient care receivables | **(3,564)** | (313) |
| Other receivables | **1,653** | (1,693) |
| Other assets | **3,132** | (914) |
| Increase (decrease) in: | | |
| Accounts payable and other accruals | **3,142** | (1,333) |
| Estimated workers' compensation liabilities | **(1,017)** | 342 |
| Postretirement benefit obligations | **1,211** | 2,276 |
| Other long-term liabilities | **(6,619)** | 3,861 |
| Net cash used in operating activities | **(2,902)** | (4,754) |
| | | |
| **Cash flows from investing activities** | | |
| Decrease in short-term investments | **3,990** | 17,848 |
| Decrease (increase) in assets limited as to use, net | **17,661** | (4,877) |
| Nonoperating (loss) income, net | **(753)** | 1,699 |
| Restricted investment income | **82** | 321 |
| Decrease (increase) in long-term investments | **5,384** | (1,439) |
| Capital expenditures, net | **(11,291)** | (12,107) |
| Net cash provided by investing activities | **15,073** | 1,445 |
| | | |
| **Cash flows from financing activities** | | |
| Change in the interest in net assets of Saint Raphael Foundation, Inc. | **(1,328)** | 1,853 |
| Transfers to/from affiliates, net | **(163)** | 2,185 |
| Restricted gifts, grants, and bequests | **3,597** | 3,611 |
| Repayment of capital lease | **(53)** | (622) |
| Principal payments on long-term debt | **(4,564)** | (4,363) |
| Net cash (used in) provided by financing activities | **(2,511)** | 2,664 |
| Net increase (decrease) in cash and cash equivalents | **9,660** | (645) |
| | | |
| Cash and cash equivalents at beginning of year | **11,377** | 12,022 |
| Cash and cash equivalents at end of year | **$ 21,037** | $ 11,377 |
| | | |
| **Supplemental disclosure of cash flow information** | | |
| Cash paid for interest | **$ 3,917** | $ 4,944 |

*See accompanying notes.*

## 1. Significant Accounting Policies

### Organization

Hospital of Saint Raphael (the Hospital) is a tax-exempt, 511-bed tertiary level acute care hospital. The Hospital is a subsidiary of Saint Raphael Healthcare System, Inc. (the System), a tax-exempt, nonstock, holding company. The other active subsidiaries of the System are DePaul Health Services Corporation (DePaul), a tax-exempt holding company; Xavier Services Corporation (Xavier), a taxable holding company; Saint Raphael Foundation, Inc. (the Foundation), a tax-exempt fund-raising foundation; and Saint Regis Health Center, Inc., d/b/a Sister Anne Virginie Grimes Health Center (the Center), a tax-exempt skilled nursing facility.

The accompanying consolidated financial statements include the accounts of the Hospital and the Hospital's wholly-owned captive insurance company subsidiaries: Caritas Insurance Company, Ltd. (Caritas) and Lukan Indemnity Company, Ltd. (Lukan). All material intercompany transactions have been eliminated in consolidation.

### Operational Uncertainties and Financial Bridge Plan

As of and for the year ended September 30, 2009, the Hospital incurred significant recurring operating losses and remains out of compliance with certain financial covenant requirements of its long-term debt agreements (see Note 6, Long-Term Debt). Negotiations continue with the various parties to the Hospital's long-term debt agreements, although a resolution acceptable to all parties is yet to be achieved. The unresolved long-term debt financial covenant violations create the possibility that an existing event of default, if declared, could result in the acceleration of substantially all of the Hospital's long-term debt; this situation has been ongoing since fiscal year end 2008, with no event of default having been declared. However, these matters raise substantial doubt about the Hospital's ability to continue as a going concern. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

The Hospital continues to make all principal and interest payments on its long-term debt in accordance with the applicable amortization schedules.

Financial performance reflects operating losses of $14,108 and $22,246 for fiscal 2009 and 2008, respectively, with fiscal 2009 operating results negatively impacted by $7,722 of realized investment losses (to preserve capital during a period of significant investment market uncertainty) included as a component of other revenues, net, in the accompanying consolidated statements of operations. Excluding these realized investment losses, the $15,815 improvement

## 1. Significant Accounting Policies (continued)

in operating results for fiscal 2009 was due to the development and successful implementation of a financial bridge plan to stabilize operations and improve financial performance. Key elements of this financial bridge plan during fiscal 2009 included initiatives to: increase rates of payment for services rendered; improve revenue cycle charge capture and reduce payment denials; improve and expand physician professional billing for services provided; increase patient flow by reducing Emergency Room waiting times and eliminating barriers to efficient movement of inpatients throughout the Hospital; increasing Operating Room capacity and efficiency by improvements in physician scheduling; evaluating staffing levels with comparable benchmarked institutions to identify realizable personnel productivity improvements; and other initiatives. Various expert consultants were engaged to assist in key aspects of the financial bridge plan, with the medical staff, administrative staff and all levels of the organization working collaboratively to affect permanent improvements in operations.

As noted above, a significant factor in the improved operating results for fiscal 2009 was the achievement of financial bridge plan initiatives. These initiatives, estimated by management to have had a positive fiscal 2009 impact of $27.6 million, are anticipated by management to favorably impact fiscal 2010 operating results by $28.4 million. An additional $8 million of financial bridge plan improvements are also anticipated to be recognized in fiscal 2010, as work currently in process is completed in the areas of cash collections and medical record documentation (estimated by management to be $5 million) and supply chain savings are recognized as revised contracts for goods and services are finalized (estimated by management to be $3 million). Management is also in the process of developing additional financial bridge plan initiatives for fiscal 2010 to provide further revenue enhancement and expense containment initiatives. The financial bridge plan will continue to be a major focus of senior management and the Board of Trustees of the Hospital throughout fiscal 2010, with management confident that accomplishment of some of these incremental initiatives will favorably impact operating results.

### Other Revenues

Other revenues primarily consist of transactions unrelated to the specific health care activities of the Hospital and include nonpatient revenues from occupational health, parking, cafeteria, and other sources including investment gains and losses on certain unrestricted investments. Due to significant investment market uncertainty during fiscal 2009, the Hospital recognized losses on the sale of equity investments in the captive insurance companys’ investment portfolios as well as in the workers compensation trust to preserve capital; such investment losses from the substantial reduction in equity investments are separately identified as a component of other revenues, net, in the accompanying consolidated statements of operations.

## 1. Significant Accounting Policies (continued)

### Nonoperating Income

Nonoperating income, net, primarily consists of unrestricted investment income, including realized gains and losses. Due to significant market uncertainty during fiscal 2009, the Hospital recognized losses on the sale of unrestricted fixed income investments to preserve capital; such investment losses from the reduction of fixed income investments are separately identified as a component of nonoperating (loss) income, net, in the accompanying consolidated statements of operations.

### Net Loss and Changes in Net Assets

The performance indicator is net loss, which for fiscal 2009 includes all changes in unrestricted net assets other than changes in net assets related to the effect of the change in accounting for postretirement benefit plans, the change in postretirement plans' liability to be recognized in future periods, and net assets released from restrictions for capital purposes. For fiscal 2008, the change in the fair value of interest rate swap agreement that qualified as an effective cash flow hedge was also excluded from the performance indicator.

### Income Taxes

The Hospital and Caritas are tax-exempt organizations as described in Section 501(c)(3) of the Internal Revenue Code. Lukan is presently nontaxable under Bermuda law.

### Cash and Cash Equivalents

The Hospital reports all unrestricted highly liquid investments with an initial maturity of three months or less as a component of cash and cash equivalents. Total deposits with financial institutions at times exceed the amount insured by Federal agencies and, therefore, bear a risk of loss.

### Inventories of Supplies

Inventories, consisting mainly of medical and surgical supplies, are stated at the lower of average cost or market determined by the first-in, first out method.

**1. Significant Accounting Policies (continued)**

**Property and Equipment**

Property and equipment acquisitions are recorded at cost. Depreciation of property and equipment is provided on the straight-line method over the estimated useful lives of the various assets (or for capitalized leases, the lesser of the estimated useful lives of the asset or the lease term, whichever is shorter), with one-half year depreciation generally recorded in the year of acquisition and disposition. The American Hospital Association recommended lives are primarily used and provide for a 25 to 50-year life for buildings and 3 to 20 years for building fixtures and equipment.

**Investments**

Effective beginning in fiscal 2008, the Hospital determined that investments and assets limited as to use reported in the accompanying consolidated balance sheets are considered trading securities, with unrealized appreciation and depreciation of unrestricted investments included in net loss.

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value at the balance sheet date. Fair value is determined based on quoted market prices. Investment income or loss (including realized gains and losses on investments, interest income, and dividends) and unrealized appreciation and depreciation of investments is included in net loss, unless the income or loss is restricted by donor or law.

When investments are received as a donation or bequest, the fair value is recorded as the cost of the investment. Interest, dividends, and realized gains or losses are recorded in unrestricted net assets unless otherwise restricted by the contributors. Restricted investment income is added directly to the appropriate restricted net asset fund.

**Fair Value of Financial Instruments**

Information regarding the fair value of investments and long-term debt is included in Note 13, Fair Value Measurements. For other monetary assets and liabilities, the carrying value approximates fair value based on current market conditions.

## 1. Significant Accounting Policies (continued)

### Assets Limited as to Use

Assets limited as to use include certain funds held in escrow pursuant to tax-exempt bond agreements (see Note 6, Long-Term Debt), funds held in trust for estimated workers' compensation liabilities (see Note 9, Self-Insurance Programs), other assets whose use is limited, which primarily reflect the assets of Lukan and Caritas (see Note 9, Self-Insurance Programs), and the Hospital's interest in the net assets of the Foundation. Amounts required to meet current liabilities have been reclassified to current assets in the accompanying consolidated balance sheets.

### Interest Rate Swap Agreement

The Hospital utilized an interest rate swap agreement to reduce risks associated with changes in interest rates, which was terminated as of July 1, 2009 as a result of an "insurer event" under the terms of this agreement (see Note 6, Long-Term Debt). The Hospital does not hold or issue derivative financial instruments for trading purposes. Until its termination, the interest rate swap agreement was reported at fair value in the accompanying consolidated balance sheet.

### Net Assets

Separate accounts are maintained by the Hospital to ensure compliance with restrictions imposed by contributors on the use of donated funds. Substantially all of the assets of such funds are invested in marketable securities.

Temporarily restricted net assets are those assets whose use has been limited by donors for a specific purpose. Permanently restricted net assets must be maintained by the Hospital in perpetuity. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose of restriction is accomplished, temporarily restricted net assets used in operations are reclassified and reported in the consolidated financial statements as net assets released from restrictions.

### Use of Estimates

The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the accompanying consolidated financial statements and related notes. Actual results could differ from those estimates.

**1. Significant Accounting Policies (continued)**

**Reclassifications**

Certain reclassifications have been made to the amounts reported for fiscal 2008 to conform the presentation with the 2009 presentation. These reclassifications had no effect on total net assets.

**Adoption of New Accounting Standards**

In June 2009, the Financial Accounting Standards Board (FASB) issued FASB ASC 105, *Generally Accepted Accounting Principles* (ASC 105), which establishes the FASB Accounting Standards Codification as the sole source of authoritative generally accepted accounting principles. Pursuant to the provisions of ASC 105, the Hospital has updated references to generally accepted accounting principles in its consolidated financial statements issued for the year ended September 30, 2009. The adoption of ASC 105 did not impact the Hospital's consolidated financial position or consolidated results of operations.

Effective October 1, 2008, the Hospital adopted FASB ASC 820-10, *Fair Value Measurements* (ASC 820-10). ASC 820-10 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States and expands disclosure about fair value measurements. The Hospital's adoption of ASC 820-10 did not significantly affect its consolidated financial statements (see Note 13, Fair Value Measurements).

Effective October 1, 2008, the Hospital adopted FASB ASC 825-10, *The Fair Value Option for Financial Assets and Liabilities (*ASC 825-10). ASC 825-10 permits companies to choose to measure certain financial instruments and other items at fair value that currently are not required to be measured at fair value under accounting principles generally accepted in the United States. The Hospital chose not to elect the fair value option for its financial assets and liabilities. Consequently, the adoption of ASC 825-10 did not have any effect on its consolidated financial statements.

**1. Significant Accounting Policies (continued)**

Effective October 1, 2008, the Hospital adopted FASB ASC 958-205, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds* (ASC 958-205). ASC 958-205 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA), and also requires enhanced disclosures for all endowment funds, including funds designated as endowments by the Hospital. The adoption of ASC 958-205 did not have a material effect on the Hospital's consolidated financial position as of September 30, 2009 or on the consolidated statements of operations and changes in net assets or cash flows for the year then ended (see Note 7, Restricted Net Assets).

During 2009, FASB issued FASB ASC 855-10, *Subsequent Event*s (ASC 855-10). ASC 855-10 establishes general standards of accounting and disclosure requirements for subsequent events (events that occur after the balance sheet date but before the financial statements are issued). In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the balance sheet date under the requirements of ASC 855-10. The Hospital adopted the provisions of ASC 855-10 as of September 30, 2009, and evaluated the impact of subsequent events through February 17, 2010 representing the date at which the consolidated financial statements were issued.

**2. Net Patient Service Revenue**

Revenues from the Medicare and Medicaid programs accounted for 47.9% and 6.7%, respectively, of the Hospital's net patient service revenue for the year ended September 30, 2009 and 49.3% and 7.6%, respectively, for the year ended September 30, 2008. Laws and regulations governing the Medicare and Medicaid programs are complex and subject to interpretation. The Hospital believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries are outstanding, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties, and exclusion from the Medicare and Medicaid programs. Changes in the Medicare and Medicaid programs, reduction of funding levels and changes in estimates could have an adverse impact on the Hospital.

*(In thousands)*

**2. Net Patient Service Revenue (continued)**

The following summarizes net patient service revenue:

| | Year Ended September 30 | |
|---|---|---|
| | **2009** | **2008** |
| Gross patient service revenue | **$ 1,237,133** | $ 1,133,035 |
| Deductions: | | |
| Allowances | **(776,684)** | (708,438) |
| Charity care (at charges) | **(1,868)** | (1,837) |
| | **(778,552)** | (710,275) |
| Net patient service revenue | **$ 458,581** | $ 422,760 |

Patient accounts receivable and revenues are recorded when patient services are performed. Net patient service revenue is reported at the estimated net realizable amounts from patients and third-party payers for services rendered. Revenue received under third-party payer agreements is subject to audit and retroactive adjustments. Provisions for third-party payer settlements and adjustments are estimated in the period the related services are rendered and adjusted in future periods as final settlements are determined. During fiscal 2009 and 2008, retroactive adjustments related to settlements with third-party payers increased the Hospital's net patient service revenues by approximately $895 and $1,570, respectively.

The Hospital has agreements with various commercial insurers and managed care organizations (MCOs) to provide medical services to subscribing participants. Under these agreements, the MCOs make payments to the Hospital for certain covered services based upon negotiated pricing for the services provided.

*(In thousands)*

**2. Net Patient Service Revenue (continued)**

The Hospital grants credit without collateral to its patients, most of whom are local residents and are insured under third-party payer arrangements. The approximate mix of patient care receivables at September 30, 2009 and 2008 is as follows:

| | 2009 | 2008 |
|---|---|---|
| Medicare | **35%** | 33% |
| Medicaid | **7** | 5 |
| Blue Cross | **12** | 15 |
| Commercial and other | **33** | 34 |
| Self-pay | **13** | 13 |
| Total | **100%** | 100% |

**3. Uncompensated Care and Community Benefit Expense**

The Hospital is committed to the community by providing services to the poor and the medically underserved, as well as providing benefits to the broader community. Focused on providing nondiscriminatory treatment of all patients, the Hospital fosters universal access to emergency care regardless of ability to pay. Services provided to the poor and the medically underserved include services provided to persons who cannot afford health care due to a lack of resources, lack of insurance, or both.

The Hospital considers care provided for which no payment was received from the patient or their insurer as uncompensated care. Uncompensated care is composed of free care provided, charity care provided, and bad debt expense. In determining uncompensated care, the Hospital excludes voluntary and involuntary discounts or “reductions in revenue,” such as underpayments from Medicare and Medicaid or discounts to managed care companies. Consistent with the reporting requirements of the State of Connecticut Office of Health Care Access, uncompensated care is reported at customary (undiscounted) charges; for the years ended September 30, 2009 and 2008, uncompensated care amounted to approximately $25,290 and $26,326, respectively.

The Hospital makes available free care programs for qualifying patients. In accordance with the established policies of the Hospital during the registration, billing, and collection processes, a patient’s eligibility for free care funds is determined. For the years ended September 30, 2009 and 2008, free care funds provided to patients qualifying for these assistance programs at customary charges were approximately $51 and $94, respectively.

**3. Uncompensated Care and Community Benefit Expense (continued)**

The Hospital makes available financial assistance programs for qualifying patients. In accordance with the established policies of the Hospital during the registration, billing, and collection processes, a patient's eligibility for financial assistance is determined. For the years ended September 30, 2009 and 2008, financial assistance provided at customary charges was approximately $4,606 and $4,563, respectively.

For patients who were determined to have the ability to pay but did not, the Hospital's provision for uncollectible accounts is bad debt expense. For the years ended September 30, 2009 and 2008, bad debt expense was approximately $20,633 and $21,669, respectively.

Annually, the Hospital accrues for the potential losses related to its uncompensated care. At September 30, 2009 and 2008, the amount estimated by management to represent the Hospital's uncompensated care allowances, which is included in the accompanying consolidated balance sheets as a reduction of accounts receivable for services to patients, was approximately $24,690 and $25,900, respectively.

Additionally, the Hospital reaches out to the broader community, which includes services provided to other needy populations that may not qualify as poor but need special services and support, by increasing access to services, educating the public about disease prevention, providing goods and services, and advocating health care coverage for all. These benefits include the cost of health promotion and education of the general community, interns and residents, health screenings, and medical research. These benefits are provided through the Project Mother Care services, a mobile Dental Van, community health centers, neighborhood schools, various community support groups, and the *Better Health* magazine.

The Hospital also makes contributions to programs, organizations, and foundations for efforts on behalf of the poor, the disadvantaged, and the community in general. These include the Hospital of Saint Raphael One-For-All Fund, Inc., sponsored by employees, which annually donates approximately $100 to local community-based organizations, and a variety of in-kind services, including vaccination programs to police and paramedic personnel, supplies and medical equipment to various organizations, shelters and relief programs, technical assistance in the areas of printing and graphic design, and use of space for community meetings.

*(In thousands)*

## 4. Investments

Short-term investments and long-term investments at September 30, 2009 and 2008 primarily consist of government and corporate bonds. Fair value and cost information for these investments at September 30, 2009 and 2008 is summarized as follows:

| | Fair Value | Cost | Net Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| **2009** | | | |
| Corporate and government bonds | **$ 1,499** | **$ 1,499** | **$ –** |
| **2008** | | | |
| Corporate and government bonds | $ 9,941 | $ 10,872 | $ (931) |

Other assets limited as to use comprise investments related to permanently restricted endowments, temporarily restricted specific-purpose funds, and unrestricted investments held by the Hospital's captive insurance company subsidiaries. Fair value and cost information for the Hospital's investments at September 30, 2009 and 2008 is summarized as follows:

| | Fair Value | Cost | Net Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| **2009** | | | |
| Cash | **$ 21,762** | **$ 21,768** | **$ (6)** |
| Certificates of deposit and other | **2,017** | **2,017** | **–** |
| Money market funds | **10,698** | **10,698** | **–** |
| Common stock | **10,818** | **13,912** | **(3,094)** |
| Corporate and government bonds | **12,555** | **12,282** | **273** |
| Mutual funds | **974** | **1,054** | **(80)** |
| | **$ 58,824** | **$ 61,731** | **$ (2,907)** |

*(In thousands)*

**4. Investments (continued)**

| | Fair Value | Cost | Net Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| **2008** | | | |
| Cash | $ 20,601 | $ 20,607 | $ (6) |
| Certificates of deposit and other | 2,572 | 2,572 | – |
| Money market funds | 9,946 | 9,946 | – |
| Common stock | 23,310 | 28,053 | (4,743) |
| Corporate and government bonds | 11,301 | 11,718 | (417) |
| Mutual funds | 2,619 | 2,719 | (100) |
| | $ 70,349 | $ 75,615 | $ (5,266) |

Also included in other assets limited as to use is the Hospital's interest in the net assets of the Foundation of $19,902 and $21,230 as of September 30, 2009 and 2008, respectively. Property held for investment (at amortized cost) of $986 and $650 is also included in other assets limited as to use at September 30, 2009 and 2008.

Unrestricted income from the Hospital's investments is included as nonoperating income in the accompanying consolidated statements of operations. The components of nonoperating income for September 30, 2009 and 2008 are summarized as follows:

| | **2009** | **2008** |
|---|---|---|
| (Loss) income from assets limited as to use and other unrestricted funds | **$ (917)** | $ 1,485 |
| Realized unrestricted investment losses for capital preservation | **(1,208)** | – |
| Unrestricted income from trust and endowment funds | **164** | 214 |
| Nonoperating (loss) income, net | **$ (753)** | $ 1,699 |

*(In thousands)*

**4. Investments (continued)**

Funds held in trust for estimated workers' compensation liabilities at September 30, 2009 and 2008 are summarized as follows:

| | Fair Value | Cost | Net Unrealized Appreciation (Depreciation) |
|---|---|---|---|
| **2009** | | | |
| Money market funds | **$ 4,468** | **$ 4,468** | **$ –** |
| Fixed income mutual funds | **2,860** | **2,796** | **64** |
| | **$ 7,328** | **$ 7,264** | **$ 64** |
| **2008** | | | |
| Money market funds | $ 2,690 | $ 2,690 | $ – |
| Common stock | 3,174 | 3,887 | (713) |
| Fixed income mutual funds | 2,814 | 2,889 | (75) |
| | $ 8,678 | $ 9,466 | $ (788) |

Investment gains and losses from the workers' compensation trust fund investments are included in other revenues, net, in the accompanying consolidated statements of operations. The net investment loss of $(1,522) for fiscal 2009 includes net investment income of $221, net of realized investment losses of ($1,743) associated with the elimination of equity investments to ensure the preservation of capital; investment income, net, for fiscal 2008 was $346.

*(In thousands)*

## 5. Property and Equipment

The components of property and equipment at September 30, 2009 and 2008 are as follows:

| | 2009 | 2008 |
|---|---|---|
| Land | **$ 2,880** | $ 2,880 |
| Land improvements | **2,922** | 2,916 |
| Buildings and improvements | **177,163** | 170,719 |
| Fixed equipment | **45,987** | 45,925 |
| Movable equipment | **196,958** | 188,609 |
| Construction in progress | **43** | 3,878 |
| | **425,953** | 414,927 |
| Less accumulated depreciation | **(325,836)** | (308,920) |
| | **$ 100,117** | $ 106,007 |

## 6. Long-Term Debt

The Hospital's long-term debt consists of the following at September 30, 2009 and 2008:

| | 2009 | 2008 |
|---|---|---|
| State of Connecticut Health and Educational Facilities Authority (CHEFA): | | |
| Tax–Exempt Bonds, Series H | **$ 20,160** | $ 23,570 |
| Tax–Exempt Bonds, Series L | **27,599** | 27,599 |
| Tax–Exempt Bonds, Series M | **25,367** | 25,367 |
| Easyloan Master Financing Agreement | **4,384** | 5,538 |
| Capital lease | **–** | 53 |
| Original issue premium, net | **42** | 59 |
| | **77,552** | 82,186 |
| Less current portion | **(4,787)** | (4,617) |
| Less amounts classified as payable in one year | **(69,578)** | (73,185) |
| | **$ 3,187** | $ 4,384 |

*(In thousands)*

**6. Long-Term Debt (continued)**

As discussed below, the Obligated Group is not in compliance with certain financial covenants of its long term debt agreements. Negotiations regarding modifications to the terms of the existing agreements to resolve the financial covenant violations have been ongoing, and mutual agreement among the involved parties has not been reached. As a result of the financial covenant violations, the possibility of the declaration of an event of default and the related possibility of acceleration of payment terms, certain long-term debt amounts noted above have been reclassified as a current obligation in the accompanying consolidated balance sheets as of September 30, 2009 and 2008.

The CHEFA bonds outstanding as of September 30, 2008 bear interest and have terms as follows:

| | | | **Principal Payments** | |
|---|---|---|---|---|
| **Issue** | **Year** | **Interest Rate** | **Begin** | **End** |
| Series H | 1994 | 5.25% to 6.5% | July 1, 1994 | July 1, 2014 |
| Series L | 2005 | Variable | July 1, 2015 | July 1, 2024 |
| Series M | 2005 | Variable | July 1, 2015 | July 1, 2024 |

Principal payments on the outstanding bonds are scheduled as follows: $3,590 in 2010; $3,780 in 2011; $4,035 in 2012; $4,235 in 2013; $4,520 in 2014 and $59,945 thereafter.

Under the terms of the Series H, Series L, and Series M loan agreements, the members of the Obligated Group are jointly and severally liable for all issued and outstanding CHEFA revenue bonds in the event of a default. The current members of the Obligated Group are the System, the Hospital, the Center, the Foundation, and DePaul.

The Series H and Series L bonds issued are insured by AMBAC Assurance Corporation and are secured by a pledge of gross receipts of the Obligated Group members and by a mortgage on substantially all property owned by the Hospital and the Center. The Series M bonds have credit enhancement provided by a letter of credit with a bank (currently extended through June 2010), and are also secured by a pledge of gross receipts of the Obligated Group members and by a mortgage on substantially all property owned by the Hospital and the Center. Negotiations are ongoing with the letter of credit provider regarding further extension of the letter of credit.

**6. Long-Term Debt (continued)**

The terms of the Series H, Series L and Series M loan agreements provide for, among other provisions, financial covenants requiring on a consolidated basis; (1) maintenance of specified long-term debt service coverage at the end of each fiscal quarter; (2) maintenance of specified long-term debt to capitalization at the end of each fiscal quarter; (3) maintenance of specified fund balance at the end of each fiscal quarter; (4) maintenance of specified short-term indebtedness at the end of each fiscal quarter; and (5) maintenance of specified days cash on hand semiannually at March 31 and September 30. The Obligated Group is not in compliance with the financial covenants to maintain: the specified long-term debt service coverage; the specified long-term indebtedness to capitalization; the specified minimum fund balance; and the specified days cash on hand. The Obligated Group has requested modifications to the terms of the existing agreements to resolve the financial covenant violations for these matters; negotiations regarding these matters are ongoing.

In connection with the Series L bonds, the Obligated Group had entered into an interest rate swap agreement with a financial institution. This agreement required the payment of a fixed rate (3.439%), with receipt of a floating rate based on LIBOR. During fiscal 2009, the further downgrade of the bond insurer created an “insurer event” as defined in the interest rate swap agreement; in response to this event, the System paid $2,116 to terminate this agreement. The realized and unrealized loss on the interest rate swap agreement of $1,082 and $1,034 for fiscal 2009 and 2008, respectively, is reflected in the accompanying consolidated statements of operations. As of September 30, 2008, the fair value of the interest rate swap agreement was reflected as a component of accounts payable and accrued expenses of the accompanying consolidated balance sheet.

The Series L bonds are auction rate securities. In the event that the weekly auctions fail to clear, the interest rate associated with these securities defaults to a formula, as described in the bond documents. The formula used to calculate the interest rate for the auctions that fail would be 175% of the defined index increasing to 265% of the defined index if the bond insurer’s rating falls below investment grade. During 2008, the Hospital’s auctions failed to clear. Due to the further downgrade of the bond insurer during fiscal 2009, the Obligated Group has been required to pay interest at 265% of the defined index (since August 2009). Interest rates on this debt ranged from 0.7% to 8.9% during fiscal 2009, and ranged from 2.3% to 11.0% during fiscal 2008.

## 6. Long-Term Debt (continued)

In connection with the Series H, Series L, and Series M bonds, various debt service reserve funds have been established to provide security for the bondholders. In connection with the original Series H loan agreement, a depreciation reserve fund had been established to provide for debt service and the purchase of replacement assets over the life of the debt. These balances, in addition to the required quarterly principal and interest payment deposits, are included in assets limited as to use in the accompanying consolidated balance sheets. The assets primarily consist of U.S. Treasury bonds and are carried at fair value, which approximates carrying value. The balance in the debt service reserve funds was approximately $6,276 and $7,438 at September 30, 2009 and 2008, respectively.

Expenses associated with the issuance of the CHEFA bonds have been deferred and are being amortized over the life of the related debt. These deferred bond issuance costs are included as other long-term assets in the accompanying consolidated balance sheets.

During fiscal 2006, the Hospital acquired certain equipment under a master financing agreement among a bank, CHEFA and the Hospital. Principal payments on this debt, which began in 2007, are as follows: $1,197 in 2010; $1,240 in 2011; $1,286 in 2012 and $661 in 2013.

The Hospital had a $15,000 revolving line of credit, which terminated subsequent to year end. Advances on the line of credit were payable on demand with an interest rate based on the bank's base rate. The line of credit was unsecured, and was unused at September 30, 2008.

## 7. Restricted Net Assets

### Endowment Funds

The Hospital's endowments consist of approximately 25 donor restricted funds established for a variety of purposes. The net assets associated with endowment funds are classified and reported based on donor-imposed restrictions.

**7. Restricted Net Assets (continued)**

The Hospital has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor restricted endowment funds, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Hospital classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and, if applicable (c) accumulations to the permanent endowment made in accordance with the related gift's donor instructions. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Hospital in a manner consistent with the donor intention. The Hospital considers the following factors in making determinations to appropriate or accumulate donor-restricted endowment funds:

(1) The duration and preservation of the fund.
(2) The purposes of the donor-restricted endowment fund.
(3) General economic conditions
(4) The possible effect of inflation and deflation
(5) The expected total return from income and the appreciation of investments
(6) Other resources of Hospital
(7) The investment policies of the Hospital

Endowment Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Hospital to retain as a fund of perpetual duration. There were no deficiencies of this nature reported in unrestricted net assets as of September 30, 2009.

Return Objectives and Risk Parameters

The Hospital's Board of Trustees has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowments while seeking to maintain the purchasing power of the endowment assets.

Endowment assets include those assets of donor-restricted funds that the Hospital must hold in perpetuity or for a donor-specified period. The Hospital expects its endowment funds, over time, to provide an average rate of return of approximately 8% annually; actual returns in any given year may vary from this amount.

*(In thousands)*

## 7. Restricted Net Assets (continued)

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return objectives, the Hospital relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Hospital targets a diversified asset allocation that places a greater emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Hospital has adopted a policy, effective for fiscal 2011, of appropriating for distribution each year between 3 and 6 percent of its endowment fund's average fair value over the prior three years (through the calendar yearend immediately preceding the beginning of the fiscal year in which the distribution is planned), with an average annual target of 4 percent. In establishing this policy, the Hospital considered the long-term expected return on its endowment noted above. Accordingly, over the long term, the Hospital expects the current spending policy to allow its endowment to grow at an average of 4 percent annually. This is consistent with the Hospital's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return. Prior to the adoption of the aforementioned spending policy late in fiscal 2009 effective for fiscal 2011, any expenditure associated with the endowment were appropriated in accordance with the donor's intention.

Endowment Net Asset Composition by Type of Fund as of September 30, 2009

All endowment net assets are donor-restricted endowment funds.

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2009

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning balance | $ – | $ 664 | $ 12,715 | $ 13,379 |
| Total investment return | – | 26 | (28) | (2) |
| Contributions | – | – | – | – |
| Appropriation of endowment assets for expenditure | – | – | – | – |
| Reclassifications | – | – | – | – |
| Endowment net assets, ending balance | $ – | $ 690 | $ 12,687 | $ 13,377 |

*(In thousands)*

## 7. Restricted Net Assets (continued)

Changes in Endowment Net Assets for the Fiscal Year Ended September 30, 2008

| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
|---|---|---|---|---|
| Endowment net assets, beginning balance | $ – | $ 624 | $ 12,944 | $ 13,568 |
| Total investment return | – | 40 | (229) | (189) |
| Contributions | – | – | – | – |
| Appropriation of endowment assets for expenditure | – | – | – | – |
| Endowment net assets, ending balance | $ – | $ 664 | $ 12,715 | $ 13,379 |

### Temporarily Restricted

Temporarily restricted net assets are available for the following purposes as of September 30, 2009 and 2008:

| | **2009** | **2008** |
|---|---|---|
| Health education | **33%** | 35% |
| Equipment purchases | **20** | 20 |
| Indigent care | **9** | 10 |
| All other | **38** | 35 |
| | **100%** | 100% |

## 8. Transactions with Affiliated Corporations

At September 30, 2009 and 2008, the following net amounts were due from affiliates:

| | **2009** | **2008** |
|---|---|---|
| Saint Regis Health Center, Inc. | **$ 4,607** | $ 5,454 |
| DePaul Health Services Corporation | **1,550** | 1,216 |
| Saint Raphael Healthcare System, Inc. | **1,510** | 984 |
| Saint Raphael Foundation, Inc. | **463** | 193 |
| | **$ 8,130** | $ 7,847 |

*(In thousands)*

## 8. Transactions with Affiliated Corporations (continued)

At September 30, 2009 and 2008, the following net amounts were due to affiliates:

| | **2009** | **2008** |
|---|---|---|
| Xavier Services Corporation | **$ 69** | $ 70 |

Amounts due from/due to affiliates have arisen primarily from cash advances between the Hospital and affiliated corporations and are non interest-bearing.

Transfers to affiliates, net, for fiscal 2009 reflects $1,872 of unrestricted and $1,709 of restricted amounts transferred from the Foundation. Transfers from affiliates, net, for fiscal 2008 reflects $1,860 of unrestricted amounts transferred from the System, $28 of unrestricted amounts transferred to the Center, and $353 of restricted amounts transferred from the Foundation.

## 9. Self-Insurance Programs

### Malpractice and General Liability

During fiscal 2009 and 2008, the Hospital's malpractice coverage was provided by a "claims-made" insurance program through its wholly owned subsidiaries, Lukan and Caritas. The liability for incurred but not reported claims of $2,535 and $2,473 at September 30, 2009 and 2008, respectively, has been retained at the Hospital.

Effective October 1, 1992, the Hospital formed Lukan. Lukan is a wholly owned subsidiary of the Hospital and a Bermuda captive insurance company which provides the first level of the Hospital; "claims-made" coverage. Coverage for the years ended September 30, 2009 and 2008 was $2,000 per claim and $10,000 in the aggregate.

**9. Self-Insurance Programs (continued)**

Effective October 1, 1989, the Hospital formed Caritas. This wholly owned subsidiary of the Hospital, a Vermont captive insurance company, provides the remainder of the Hospital's "claims-made" coverage. Coverage for the years ended September 30, 2009 and 2008 was $28,000 per claim and $48,000 in the aggregate; of this coverage, $20,000 per claim and $40,000 in the aggregate was provided under a reinsurance agreement with a commercial insurer. With favorable experience during the three year term of this initial reinsurance agreement, effective October 1, 2009, the reinsurance agreement was commuted; as a result, Caritas' coverage for each of the three years ended September 30, 2009 becomes $28,000 per claim with no aggregate limit. As a result of the commutation, Caritas has recorded the premium to be returned under the terms of the reinsurance agreement of $500 as of September 30, 2009, which is included in other assets whose use is limited in the accompanying consolidated balance sheets. Caritas has entered into another reinsurance agreement with a commercial insurer to provide similar levels of umbrella insurance coverage for the three year periods beginning October 1, 2009.

Assets held by Lukan and Caritas were $45,975 and $55,281 as of September 30, 2009 and 2008, respectively, and are reflected as other assets whose use is limited in the accompanying consolidated balance sheets. Liabilities recorded by Lukan and Caritas were $31,522 and $35,378 as of September 30, 2009 and 2008, respectively, and are reflected as other long-term liabilities in the accompanying consolidated balance sheets.

The actuary estimated the liability for unpaid losses based on industry data, as well as entity-specific data. Management considers the liability to be adequate as of September 30, 2009 and 2008; however, no assurance can be given that the ultimate settlement of losses may not vary materially from the liability recorded. Future adjustments to the amounts recorded resulting from the continual review process, as well as differences between estimates and ultimate payments, will be reflected in the consolidated statements of operations of future years when such adjustments, if any, become known.

*(In thousands)*

## 9. Self-Insurance Programs (continued)

Activity in the estimated liability for outstanding losses and loss related expenses at Lukan and Caritas for the years ended September 30, 2009 and 2008 for outstanding losses and loss related expenses is summarized as follows:

| | 2009 | 2008 |
|---|---|---|
| Balance, beginning of year | **$ 35,191** | $ 33,980 |
| Losses incurred related to: | | |
| Current year | **10,367** | 10,731 |
| Prior years | **(3,306)** | (695) |
| Total incurred | **7,331** | 10,036 |
| | | |
| Paid losses related to: | | |
| Current year | **(96)** | (50) |
| Prior years | **(11,023)** | (8,775) |
| Total paid | **(11,119)** | (8,825) |
| Balance, end of year | **$ 31,403** | $ 35,191 |

As a result of changes in management's estimates of the ultimate settlement amount of claims reported in prior years, incurred losses and loss adjustment expenses decreased by $3,036 in fiscal 2009 and decreased by $695 in fiscal 2008.

### Workers' Compensation

Effective October 1, 1991, the Hospital became self-insured for the deductible portion of workers' compensation claims. Based upon fiscal 2008 financial performance, the Hospital was notified during fiscal 2009 that the State of Connecticut would no longer permit the self-insurance of worker's compensation claims after April 17, 2009. The Hospital has obtained commercial insurance coverage for such claims arising after this date. The worker's compensation trust fund will continue to cover the costs of claims arising through the date of the change.

*(In thousands)*

## 9. Self-Insurance Programs (continued)

For the applicable portions of fiscal 2009 and 2008, the deductibles were $1,000 (dollars as stated) per occurrence, with an aggregate maximum of $1,000 per year. The Hospital purchased statutory umbrella insurance coverage with a commercial carrier through September 30, 2010. The Hospital is required to maintain a performance bond related to this self-insurance program; as of September 30, 2009, this performance bond has been collateralized by a $4,250 irrevocable letter of credit which has expired as of November 30, 2009. Effective with the expiration of this irrevocable letter of credit, the Hospital provides $4,250 of direct collateral to the performance bond provider via a custody arrangement with a bank; such direct collateral was funded by a withdrawal from the related trust.

The Hospital established an irrevocable trust to hold assets, accumulate income, and pay settled claims and expenses related to the workers' compensation self-insurance program for deductibles. Amounts are charged to expense and funds are deposited into the trust based upon an actuarial determination of the Hospital's liability. A discount rate of 5% was used in the determination of this liability for fiscal 2009 and 2008. Trust fund deposits at September 30, 2009 and 2008 are invested by the trustee in marketable securities.

Activity in the workers' compensation trust fund asset and self-insurance liability accounts for the years ended September 30, 2009 and 2008 was as follows:

| | **2009** | | **2008** | |
|---|---|---|---|---|
| | **Asset** | **Liability** | **Asset** | **Liability** |
| Balance, beginning of year | **$ 8,678** | **$ 8,856** | $ 8,985 | $ 8,514 |
| Current year expense | **–** | **1,724** | – | 3,062 |
| Hospital contribution | **2,079** | **–** | 2,973 | – |
| Investment gains and losses, net | **221** | **–** | 346 | – |
| Realized losses for capital preservation | **(1,743)** | **–** | – | – |
| Change in unrealized appreciation (depreciation) of investments | **852** | **–** | (906) | – |
| Reinsurance receivable | **120** | **120** | 273 | 273 |
| Settlement of claims | **(2,182)** | **(2,182)** | (2,085) | (2,085) |
| Fund expenses | **(697)** | **(679)** | (908) | (908) |
| Balance, end of year | **$ 7,328** | **$ 7,839** | $ 8,678 | $ 8,856 |

## 10. Postretirement Benefits

### Pensions

The Hospital has a noncontributory defined benefit retirement plan, which is funded in accordance with a method approved by the Board of Trustees. Benefits payable under this plan are based on credited years of service and earnings as defined in the plan documents. During fiscal 2004, participation in the plan was limited to employees hired through December 31, 2003. Pension cost for the defined benefit retirement plan was approximately $6,934 and $8,139 for fiscal 2009 and 2008, respectively.

Effective January 1, 2004, for new hires subsequent to December 31, 2003, the Hospital has a noncontributory defined contribution retirement plan. Deposits into this plan are based on credited years of service and earnings as defined in the plan documents. Pension cost for the defined contribution retirement plan was approximately $1,107 for fiscal 2009 and $829 for fiscal 2008.

For fiscal 2009 and 2008, the majority of the Hospital's employees were eligible to participate in a 401(k) savings plan sponsored by the Hospital. The Hospital matches one dollar for every dollar contributed by an employee into the Plan, up to 3% of compensation as defined. Savings plan expense was approximately $3,861 and $3,511 for fiscal 2009 and 2008, respectively.

The total pension expense for the years ended September 30, 2009 and 2008 was approximately $12,079 and $12,672, respectively.

### Medical and Life Insurance

The Hospital utilizes the attribution method of accounting for the actuarially determined cost of providing medical and life insurance benefits to eligible retirees, where the cost of providing the postretirement benefits is accrued during the active service period of the employee. Effective during fiscal 2004, the ability to participate in this benefit plan was frozen for all existing employees at that date based on a combination of age and years of service.

The Medicare Prescription Drug, Improvement, and Modernization Act of 2003 (the Act) was enacted on December 8, 2003. The Act introduced a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least actuarially equivalent to Medicare Part D. The Hospital's estimate of its postretirement obligation, net periodic postretirement benefit cost, and the corresponding disclosures reflect the effects of the Act on the medical and life insurance plan.

*(In thousands)*

### 10. Postretirement Benefits (continued)

The assumed health care cost trend rate used was 8% in 2009, reaching an ultimate trend rate of 5% in 2015 and later. If the health care cost trend rate was increased by 1%, the periodic expense would be increased by approximately $75. If the health care cost trend rate was decreased by 1%, the periodic expense would be decreased by approximately $65.

### Postretirement Benefit Costs

On September 30, 2009, the Hospital adopted the measurement date provisions of FASB ASC 715 & 958, *Employers Accounting for Defined Benefit Pension and Other Postretirement Plans* (ASC 715 & 958). ASC 715 & 958 required the Hospital to measure plan assets and benefit obligations at a date consistent with its fiscal year-end consolidated balance sheet. The reduction of net assets recorded as a result of this change in accounting is $2,158, and is included in the accompanying consolidated statement of changes in net assets.

Included in unrestricted net assets at September 30, 2009 and 2008 are the following amounts that have not yet been recognized in net periodic benefit cost:

| | **2009** | | **2008** | |
|---|---|---|---|---|
| | **Pension** | **Insurance** | **Pension** | **Insurance** |
| Unrecognized actuarial (loss) gain | **$ (84,349)** | **$ (797)** | $ (37,693) | $ 1,466 |
| Unrecognized prior service (cost) credit | **(302)** | **–** | (378) | 832 |
| Interest cost | **$ (84,651)** | **$ (797)** | $ (38,071) | $ 2,298 |

The actuarial loss and prior service credit included in unrestricted net assets at September 30, 2009 and expected to be recognized in net periodic benefit cost during the year ending September 30, 2010 are as follows:

| | **Pension** |
|---|---|
| Unrecognized actuarial loss | $ 3,967 |
| Unrecognized prior service credit | 61 |
| | $ 4,028 |

*(In thousands)*

**10. Postretirement Benefits (continued)**

The following table sets forth the funded status of the postretirement benefit plans and the related amounts recognized in the Hospital's consolidated financial statements at September 30, 2009 and 2008:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension** | **Insurance** | **Pension** | **Insurance** |
| Change in benefit obligations: | | | | |
| Benefit obligations, at beginning of year | **$ 169,070** | **$ 17,145** | $ 161,486 | $ 17,555 |
| Effect of eliminating early measurement date | **(14,958)** | **(1,103)** | – | – |
| Service cost | **4,620** | **38** | 5,632 | 51 |
| Interest cost | **11,445** | **1,130** | 10,490 | 1,079 |
| Actuarial loss (gain) | **47,613** | **3,066** | (4,541) | (27) |
| Benefits paid | **(4,400)** | **(1,707)** | (3,997) | (1,685) |
| Federal subsidy on benefits paid | **–** | **133** | – | 172 |
| Benefit obligations, at end of year | **213,390** | **18,702** | 169,070 | 17,145 |
| | | | | |
| Change in plan assets at fair value: | | | | |
| Plan assets, beginning of year | **105,090** | **–** | 112,235 | – |
| Effect of eliminating early measurement date | **(6,075)** | **–** | – | – |
| Actual return on plan assets | **(763)** | **–** | (9,948) | – |
| Employer contribution | **4,464** | **1,574** | 6,800 | 1,513 |
| Benefits paid | **(4,400)** | **(1,707)** | (3,997) | (1,685) |
| Federal subsidy on benefits paid | **–** | **133** | – | 172 |
| Plan assets, end of year | **98,316** | **–** | 105,090 | – |
| Funded status of plan | **(115,074)** | **(18,702)** | (63,980) | (17,145) |
| Contributions made after measurement date | **–** | **–** | – | 406 |
| Accrued postretirement benefit cost | **$ (115,074)** | **$ (18,702)** | $ (63,980) | $ (16,739) |

*(In thousands)*

## 10. Postretirement Benefits (continued)

The measurement date for the postretirement obligations in the table above is September 30, 2009 for fiscal 2009 and June 30, 2008 for fiscal 2008. The following assumptions were used in calculating and determining the actuarial present value of the accumulated benefit obligations at September 30, 2009 and 2008:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension** | **Insurance** | **Pension** | **Insurance** |
| Discount rate at year-end | **5.60%** | **5.60%** | 6.35% | 6.35% |
| Long-term rate of return on plan assets | **7.75%** | **N/A** | 8.50% | N/A |
| Average rate of increase in compensation | **3.00%** | **3.00%** | 3.00% | 3.00% |

To develop the expected long-term rate of return on plan assets assumption, the Hospital considered the historical return and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The accumulated benefit obligation at September 30, 2009 and 2008 was $183,563 and $144,759, respectively.

Net postretirement benefit costs for fiscal 2009 and 2008 included the following components:

| | 2009 | | 2008 | |
|---|---|---|---|---|
| | **Pension** | **Insurance** | **Pension** | **Insurance** |
| Service cost—benefits earned during the period | **$ 4,620** | **$ 38** | $ 5,632 | $ 51 |
| Interest cost on projected benefit obligation | **11,445** | **1,130** | 10,490 | 1,079 |
| Expected return on plan assets | **(9,192)** | **–** | (9,165) | – |
| Amortization of unrecognized net gain/loss | **–** | **(190)** | 1,121 | – |
| Amortization of prior service cost | **61** | **(663)** | 61 | (679) |
| Net periodic benefit cost | **$ 6,934** | **$ 315** | $ 8,139 | $ 451 |

### Contributions

The Hospital expects to contribute approximately $9,200 to its defined benefit pension plan and approximately $1,800 to its medical and life insurance plan in 2010.

*(In thousands)*

**10. Postretirement Benefits (continued)**

**Estimated Future Cash Flows**

The following benefit payments (which reflect expected future service, as appropriate), are expected to be paid, and the following Medicare Part D subsidies are expected to be received, approximately as follows:

| Fiscal Year | Pension Payments | Insurance Payments | Medicare Part D Receipts |
|---|---|---|---|
| 2010 | $ 5,004 | $ 1,488 | $ 134 |
| 2011 | 5,715 | 1,525 | 134 |
| 2012 | 6,308 | 1,563 | 132 |
| 2013 | 7,012 | 1,585 | 130 |
| 2014 | 7,784 | 1,597 | 125 |
| Years 2015 – 2019 | 53,185 | 7,905 | 537 |

**Pension Plan Assets**

The defined benefit pension plan's investment objectives are to achieve long-term growth in excess of long-term inflation and to provide a rate of return that meets or exceeds the actuarial expected long-term rate of return on plan assets over a long-term time horizon. In order to minimize the risk, the plan aims to minimize the variability in yearly returns. The plan also aims to diversify its holding among sectors, industries, and companies. No more than 5% of the plan's portfolio (excluding U.S. government securities and cash) may be held in an individual company's stocks or bonds and no more than twice the industry weighting listed in the most appropriate benchmark factor for that industry.

The Hospital's defined benefit pension plan allocations at September 30, 2009 and 2008, by asset category, are as follows:

| Asset Category | 2009 | 2008 |
|---|---|---|
| Equity securities | **52.4%** | 53.8% |
| Debt securities | **15.1** | 13.5 |
| Cash and accrued income | **32.5** | 32.7 |
| Total | **100.0%** | 100.0% |

*(In thousands)*

## 11. Functional Expenses

The Hospital provides tertiary level health care services to residents within its geographic location. The approximate proportion of program services and administrative expenses for the years ended September 30, 2009 and 2008 is as follows:

| | **2009** | **2008** |
|---|---|---|
| Health care services | **85%** | 85% |
| Administrative and general | **15** | 15 |
| | **100%** | 100% |

## 12. Commitments and Contingencies

### Leases

The Hospital is a party to various operating leases for property and equipment. Rental expense amounted to approximately $10,087 and $9,927 for the years ended September 30, 2009 and 2008, respectively. Minimum future rental commitments on all noncancelable operating leases with initial or remaining terms of more than one year are as follows: $3,348 in 2010; $2,888 in 2011; $2,000 in 2012; $1,220 in 2013; $760 in 2014; and $3,291 thereafter.

### Litigation

The Hospital is involved in litigation arising in the ordinary course of business. In the opinion of management, the final resolution of these legal matters will not have a material effect on the Hospital’s consolidated financial position.

## 13. Fair Value Measurements

As described in Note 1, on October 1, 2008, the Hospital adopted the methods of calculating fair value defined in ASC 820-10 to value its financial assets and liabilities, when applicable. ASC 820-10 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and establishes a framework for measuring fair value. ASC 820-10 applies to other accounting pronouncements that require or permit fair value measurements and does not require new fair value measurements. Fair value measurements are applied based on the unit of account from the reporting entity's perspective. The unit of account determines what is being measured by reference to the level at which the asset or liability is aggregated (or disaggregated) for purposes of applying other accounting pronouncements.

ASC 820-10 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

> *Level 1:* Quoted prices (unadjusted) in active markets that are accessible at the measurement date for identical assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
>
> *Level 2:* Observable inputs that are based on inputs not quoted in active markets, but corroborated by market data.
>
> *Level 3:* Unobservable inputs are used when little or no market data is available. The fair value hierarchy gives the lowest priority to Level 3 inputs.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. In determining fair value, the System uses valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs to the extent possible and considers nonperformance risk in its assessment of fair value.

**13. Fair Value Measurements (continued)**

Financial assets carried at fair value as of September 30, 2009 are classified in the table below in one of the three categories described above (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| **Cash and cash equivalents:** | | | | |
| Cash and cash equivalents | $ 21,037 | $ – | $ – | $ 21,037 |
| | | | | |
| **Long-term investments:** | | | | |
| Corporate and government bonds | $ – | $ 1,499 | $ – | $ 1,499 |
| | | | | |
| **Other assets limited as to use:** | | | | |
| Cash and cash equivalents | $ 21,762 | $ – | $ – | $ 21,762 |
| Certificates of deposit and other | – | 2,017 | – | 2,017 |
| Money market funds | 10,698 | – | – | 10,698 |
| Common stock | 10,818 | – | – | 10,818 |
| Corporate and government bonds | – | 12,555 | – | 12,555 |
| Mutual funds | 974 | – | – | 974 |
| | $ 44,252 | $ 14,572 | $ – | $ 58,824 |

The following is a description of the Hospital's valuation methodologies for assets measured at fair value. Fair value for Level 1 is based upon quoted market prices. Fair value for Level 2 is based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuation techniques for which all significant assumptions are observable in the market or can be corroborated by observable market data for substantially the full term of the assets. Inputs are obtained from various sources including market participants, dealers and brokers.

The fair value of CHEFA Series H bonds, determined using quoted market prices at the valuation date, was approximately $21,822 and $24,349 at September 30, 2009 and September 30, 2008, respectively. As the Series L and M bonds have variable interest rates, fair value is considered to be equal to carrying value.

# Other Financial Information

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# Report of Independent Auditors on Other Financial Information

The Board of Trustees
Hospital of Saint Raphael and Subsidiaries

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The following consolidating other financial information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information has been subjected to the auditing procedures applied in our audits of the consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole. No provision for any adjustments that may result from the outcome of the going concern uncertainty as explained in our report on the consolidated financial statements has been made in the information.

Ernst + Young LLP

February 17, 2010

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet

September 30, 2009

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 21,037 | $ – | $ – | $ – | $ 21,037 |
| Receivables: | | | | | |
| Patient care, net of allowance for doubtful accounts of $24,690 | 53,666 | – | – | – | 53,666 |
| Due from third-party payers | 3,545 | – | – | – | 3,545 |
| Other receivables | 2,113 | – | – | – | 2,113 |
| Total receivables | 59,324 | – | – | – | 59,324 |
| Due from affiliates | 8,130 | – | – | – | 8,130 |
| Current portion of assets limited as to use | 1,903 | – | – | – | 1,903 |
| Inventories | 7,867 | – | – | – | 7,867 |
| Other current assets | 371 | – | – | – | 371 |
| Total current assets | 98,632 | – | – | – | 98,632 |
| Long-term investments | 1,499 | – | – | – | 1,499 |
| Assets limited as to use: | | | | | |
| Net funds held in escrow pursuant to tax-exempt bond agreements | 8,179 | – | – | – | 8,179 |
| Funds held in trust for estimated workers' compensation liabilities | 7,328 | – | – | – | 7,328 |
| Other investments | 41,607 | 30,572 | 15,403 | (7,870) | 79,712 |
| Less current portion | (1,903) | – | – | – | (1,903) |
| Total assets limited as to use, net of current portion | 55,211 | 30,572 | 15,403 | (7,870) | 93,316 |
| Property and equipment, net | 100,117 | – | – | – | 100,117 |
| Other long-term assets | 2,871 | – | – | – | 2,871 |
| Total assets | $ 258,330 | $ 30,572 | $ 15,403 | $ (7,870) | $ 296,435 |

Hospital of Saint Raphael and Subsidiaries

Consolidating Balance Sheet (continued)

September 30, 2009

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 57,138 | $ – | $ – | $ – | $ 57,138 |
| Interest payable | 457 | – | – | – | 457 |
| Due to third-party payers | 1,494 | – | – | – | 1,494 |
| Due to affiliates | 69 | – | – | – | 69 |
| Current portion of postretirement benefit obligations | 11,000 | – | – | – | 11,000 |
| Current portion of long-term debt | 4,787 | – | – | – | 4,787 |
| Long-term debt classified as payable in one year | 69,578 | – | – | – | 69,578 |
| Total current liabilities | 144,523 | – | – | – | 144,523 |
| Estimated workers' compensation liabilities | 7,839 | – | – | – | 7,839 |
| Postretirement benefit obligations, net of current portion | 122,776 | – | – | – | 122,776 |
| Long-term debt, net of current portion and amounts classified as payable in one year | 3,187 | – | – | – | 3,187 |
| Other long-term liabilities | 10,735 | 25,930 | 5,592 | – | 42,257 |
| Total liabilities | 289,060 | 25,930 | 5,592 | – | 320,582 |
| Net assets: | | | | | |
| Unrestricted | (59,114) | 4,642 | 9,811 | (7,870) | (52,531) |
| Temporarily restricted | 15,697 | – | – | – | 15,697 |
| Permanently restricted | 12,687 | – | – | – | 12,687 |
| Total net assets | (30,730) | 4,642 | 9,811 | (7,870) | (24,147) |
| Total liabilities and net assets | $ 258,330 | $ 30,572 | $ 15,403 | $ (7,870) | $ 296,435 |

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet (continued)

September 30, 2008

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| **Assets** | | | | | |
| Current assets: | | | | | |
| Cash and cash equivalents | $ 11,377 | $ – | $ – | $ – | $ 11,377 |
| Short-term investments | 3,935 | – | – | – | 3,935 |
| Receivables: | | | | | |
| Patient care, net of allowance for doubtful accounts of $25,900 | 50,102 | – | – | – | 50,102 |
| Due from third-party payers | 5,228 | – | – | – | 5,228 |
| Other receivables | 2,083 | – | – | – | 2,083 |
| Total receivables | 57,413 | – | – | – | 57,413 |
| Due from affiliates | 7,872 | – | – | (25) | 7,847 |
| Current portion of assets limited as to use | 1,339 | – | – | – | 1,339 |
| Inventories | 7,965 | – | – | – | 7,965 |
| Other current assets | 310 | – | – | – | 310 |
| Total current assets | 90,211 | – | – | (25) | 90,186 |
| Long-term investments | 6,006 | – | – | – | 6,006 |
| Assets limited as to use: | | | | | |
| Net funds held in escrow pursuant to tax-exempt bond agreements | 8,777 | – | – | – | 8,777 |
| Funds held in trust for estimated workers' compensation liabilities | 8,678 | – | – | – | 8,678 |
| Other investments | 44,826 | 33,271 | 22,010 | (7,878) | 92,229 |
| Less current portion | (1,339) | – | – | – | (1,339) |
| Total assets limited as to use, net of current portion | 60,942 | 33,271 | 22,010 | (7,878) | 108,345 |
| Property and equipment, net | 106,007 | – | – | – | 106,007 |
| Other long-term assets | 6,249 | – | – | – | 6,249 |
| Total assets | $ 269,415 | $ 33,271 | $ 22,010 | $ (7,903) | $ 316,793 |

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Balance Sheet (continued)

September 30, 2008

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| **Liabilities and net assets** | | | | | |
| Current liabilities: | | | | | |
| Accounts payable and accrued expenses | $ 53,602 | $ – | $ – | $ – | $ 53,602 |
| Interest payable | 636 | – | – | – | 636 |
| Due to third-party payers | 1,708 | – | – | – | 1,708 |
| Due to affiliates | 70 | 25 | 8 | (33) | 70 |
| Current portion of postretirement benefit obligations | 10,800 | – | – | – | 10,800 |
| Current portion of long-term debt | 4,617 | – | – | – | 4,617 |
| Long-term debt classified as payable in one year | 73,185 | – | – | – | 73,185 |
| Total current liabilities | 144,618 | 25 | 8 | (33) | 144,618 |
| Estimated workers' compensation liabilities | 8,856 | – | – | – | 8,856 |
| Postretirement benefit obligations, net of current portion | 69,919 | – | – | – | 69,919 |
| Long-term debt, net of current portion and amounts classified as payable in one year | 4,384 | – | – | – | 4,384 |
| Other long-term liabilities | 12,519 | 25,780 | 9,565 | – | 47,864 |
| Total liabilities | 240,296 | 25,805 | 9,573 | (33) | 275,641 |
| Net assets: | | | | | |
| Unrestricted | (2,505) | 7,466 | 12,437 | (7,870) | 9,528 |
| Temporarily restricted | 18,909 | – | – | – | 18,909 |
| Permanently restricted | 12,715 | – | – | – | 12,715 |
| Total net assets | 29,119 | 7,466 | 12,437 | (7,870) | 41,152 |
| Total liabilities and net assets | $ 269,415 | $ 33,271 | $ 22,010 | $ (7,903) | $ 316,793 |

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Statement of Operations

### Year Ended September 30, 2009

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| Unrestricted revenues and other support: | | | | | |
| Net patient service revenue | $ 458,581 | $ – | $ – | $ – | $ 458,581 |
| Other revenues: | | | | | |
| Realized trust fund investment losses for capital preservation (*Notes 1 and 9)* | (1,743) | – | – | – | (1,743) |
| Realized captives' investment losses for capital preservation (*Notes 1 and 9)* | – | (2,909) | (3,070) | – | (5,979) |
| Other, net | 16,964 | 6,454 | 1,037 | (4,008) | 20,447 |
| Other revenues, net | 15,221 | 3,545 | (2,033) | (4,008) | 12,725 |
| Net assets released from restrictions, used in operations | 3,913 | – | – | – | 3,913 |
| Total unrestricted revenues and other support | 477,715 | 3,545 | (2,033) | (4,008) | 475,219 |
| Expenses: | | | | | |
| Compensation, related fringe benefits, and fees | 321,739 | – | – | – | 321,739 |
| Supplies and other | 120,203 | 8,188 | 1,207 | (3,920) | 125,678 |
| Depreciation and amortization | 17,181 | – | – | – | 17,181 |
| Interest | 4,184 | – | – | (88) | 4,096 |
| Provision for uncollectible accounts | 20,633 | – | – | – | 20,633 |
| Total operating expenses | 483,940 | 8,188 | 1,207 | (4,008) | 489,327 |
| Operating loss | (6,225) | (4,643) | (3,240) | – | (14,108) |
| Nonoperating (loss) income: | | | | | |
| Realized investment losses for capital preservation *(Note 1and 4)* | (1,208) | – | – | – | (1,208) |
| Other *(Note 1)* | 455 | – | – | – | 455 |
| Nonoperating (loss) income, net | (753) | – | – | – | (753) |
| Net loss before change in unrealized (depreciation) of investments and realized and unrealized loss on interest rate swap agreement | (6,978) | (4,643) | (3,240) | – | (14,861) |
| Change in unrealized appreciation (depreciation) of investments | 1,786 | 1,819 | 614 | – | 4,219 |
| Realized and unrealized loss on interest rate swap agreement | (1,012) | – | – | – | (1,012) |
| Net (loss) income | $ (6,204) | $ (2,824) | $ (2,626) | $ – | $ (11,654) |

# Hospital of Saint Raphael and Subsidiaries

## Consolidating Statement of Operations (continued)

### Year Ended September 30, 2008

*(In thousands)*

| | Hospital of Saint Raphael | Lukan Indemnity Company, Ltd. | Caritas Insurance Company, Ltd. | Eliminations | Total |
|---|---|---|---|---|---|
| Unrestricted revenues and other support: | | | | | |
| Net patient service revenue | $ 422,760 | $ – | $ – | $ – | $ 422,760 |
| Other revenues, net | 20,476 | 4,861 | 2 | (1,524) | 23,815 |
| Net assets released from restrictions, used in operations | 3,411 | – | – | – | 3,411 |
| Total unrestricted revenues and other support | 446,647 | 4,861 | 2 | (1,524) | 449,986 |
| Expenses: | | | | | |
| Compensation, related fringe benefits, and fees | 301,007 | – | – | – | 301,007 |
| Supplies and other | 117,389 | 8,166 | 2,830 | (1,500) | 126,885 |
| Depreciation and amortization | 18,677 | – | – | – | 18,677 |
| Interest | 4,018 | – | – | (24) | 3,994 |
| Provision for uncollectible accounts | 21,699 | – | – | – | 21,669 |
| Total operating expenses | 462,760 | 8,166 | 2,830 | (1,524) | 472,232 |
| Operating loss | (16,113) | (3,305) | (2,828) | – | (22,246) |
| Nonoperating (loss) income:: | | | | | |
| Realized investment losses for capital preservation *(Notes 1 and 4)* | – | – | – | – | – |
| Other *(Note 1)* | 1,699 | – | – | – | 1,699 |
| Nonoperating (loss) income, net | 1,699 | – | – | – | 1,699 |
| Net loss before change in unrealized (depreciation) of investments and realized and unrealized loss on interest swap agreement | (14,414) | (3,305) | (2,828) | – | (20,547) |
| Change in unrealized appreciation (depreciation) of investments | (1,986) | (2,191) | (3,959) | – | (8,136) |
| Realized and unrealized loss on interest rate swap agreement | (967) | – | – | – | (967) |
| Net (loss) income | $ (17,367) | $ (5,496) | $ (6,787) | $ – | $ (29,650) |